

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Pixley Ka Seme District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Pixley Ka Seme District Municipality set out on pages X to X which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Pixley Ka Seme District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern/ financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 50 to the financial statements, which indicates as at year ended 30 June 2019 the municipality's total liabilities exceeded its total assets by R5 112 989 (2018: R9 142 734). As stated in note 50, these events or conditions, along with other matters as set forth in note 50, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Underspending of the budget

10. As disclosed in the statement of comparison of budget and actual amounts for the year ended 30 June 2019, the municipality materially underspent the budget by R9 571 295.

Other matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes (MFMA 125)

12. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

13. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Pixley Ka Seme District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Objectives	Pages in the annual performance report
Objective 4: Monitor and support local municipalities to enhance service delivery level working papers	X – X
Objective 5 - Promote economic growth in the district	X – X
Objective 8 - To provide disaster management services to the citizens	X – X
Objective 9 - To provide municipal health services to improve the quality of life of the citizens	X – X

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and

related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective 4 - Monitor and support local municipalities to enhance service delivery level working papers
- Objective 5 - Promote economic growth in the district
- Objective 8 - To provide disaster management services to the citizens
- Objective 9 - To provide municipal health services to improve the quality of life of the citizens

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of on the objectives of Objective 4: Monitor and support local municipalities to enhance service delivery level working papers, Objective 5: Promote economic growth in the district, Objective 8: To provide disaster management services to the citizens. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislations are as follows:

Annual Financial Statements, performance reports and annual reports

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of general expenditure, payables and commitments identified by the auditors in the submitted

financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

- 29. Reasonable steps were not taken to prevent irregular expenditure amounting to R2 781 291 as disclosed in note 38.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance that caused majority of the irregular expenditure was due to procurement processes that were not followed. Irregular expenditure amounting to R2 200 604 was incurred on printing and water sampling.
- 30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R71 149, as disclosed in note 38.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest of overdue accounts.
- 31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 251 246, as disclosed in note 38.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget on vote 9: Health Other Expenditure and vote 11: Public Safety Other Expenditure.

Procurement and contract management

- 32. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).
- 33. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

Consequence management

- 34. All of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

<h3>Other information</h3>

- 35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
- 36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements

and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

38. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified audit opinion and the findings on compliance with legislation included in this report.
40. As the accounting officer did not review the financial statements before submitting them for auditing, misstatements in general expenditure, irregular expenditure, unauthorised expenditure, payables and commitments were not identified and corrected. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting implementation and reporting as inconsistencies were identified between the IDP and SDBIP.
41. The municipality did not have a proper filing system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Significant non-compliance with legislation was reported on irregular expenditure, fruitless and wasteful expenditure.
42. Even though the municipality conducted a risk assessment and compiled a risk strategy and the fraud prevention plan, this was inadequate, because there were still material findings noted in all three aspects of the audit, namely financial, performance and compliance with legislation.
43. Although an internal audit unit was in place, material misstatements were noted in all three aspects of the audit, as indicated above thus resulting in the unit being ineffective. Internal audit's work was only used for risk identification and assessment purposes especially since their work on performance information was not reperformable. The audit committee did not monitor the implementation of audit action plans as well as internal audit plan resulting in a number of repeat findings identified over three aspects of the audit, namely financial, performance and compliance with legislation.

Auditer General

Kimberley

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pixley Ka Seme District Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.